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GAMBLE-SKOGMO, INC. ANNUAL REPORT 1971



ANNUAL MEETING

The annual meeting of stockholders will be held at the home office of the company on Friday, June 23, 1972. A proxy statement, including a request for proxies, will be mailed to stockholders approximately three weeks prior to the meeting.

TRANSFER AGENTS

First National City Bank
111 Wall Street
New York, New York 10015
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

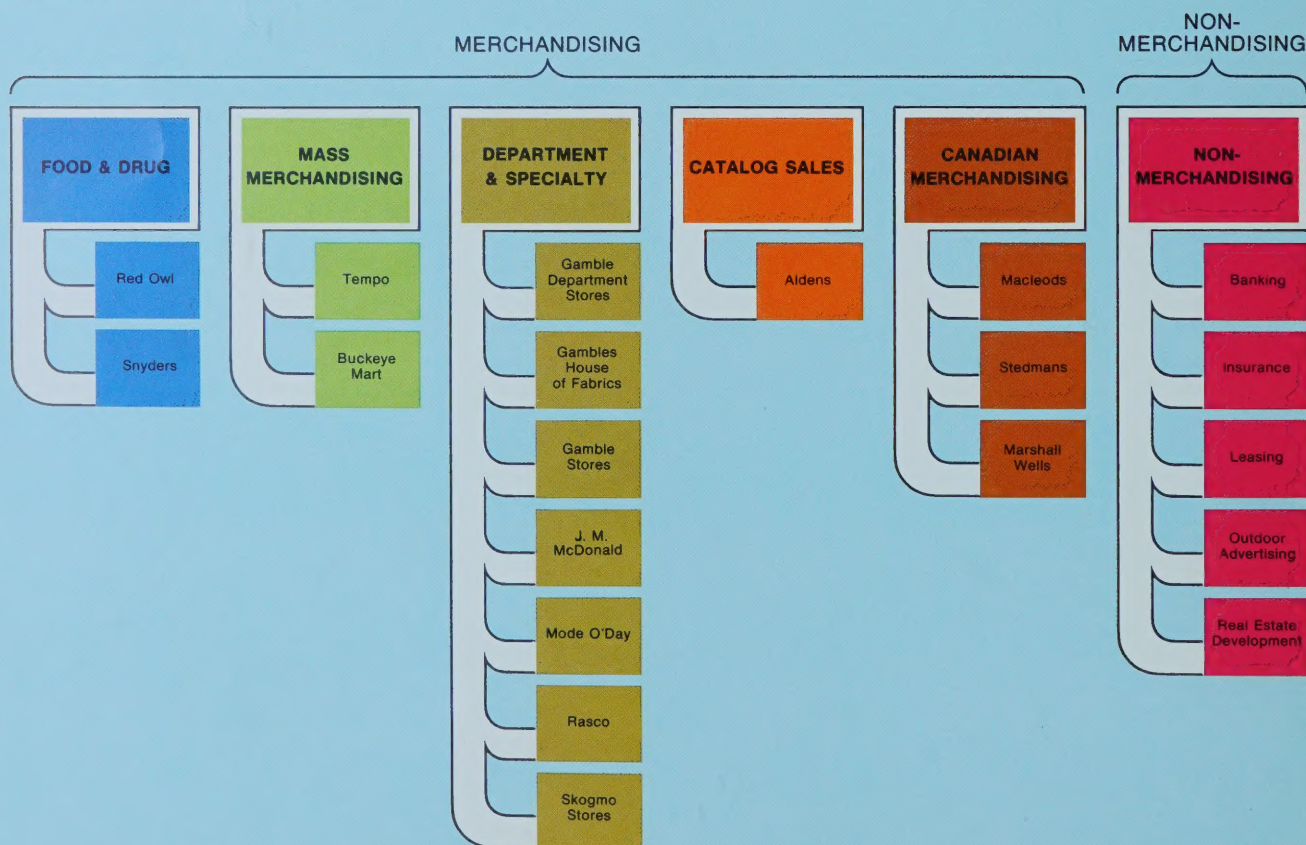
REGISTRARS

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York 10015
Continental Illinois National Bank and Trust Company
231 South La Salle Street
Chicago, Illinois 60690

THE ANNUAL REPORT COVER is an abstract bar graph consisting of a portion of each of the six full-page pictures appearing in the report.

Each picture depicts a behind-the-scenes activity in one of the company's divisions or subsidiaries.

GAMBLES OPERATIONS



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FINANCIAL HIGHLIGHTS

(All Dollars in Thousands except Amounts per share)

	1971	1970	Percent Increase over Last Year
Net Sales and Operating Revenues	\$1,315,092	\$1,296,704	1.4
Earnings before Income Taxes and Minority Interest	34,771	30,528	13.9
Net Earnings	19,127	15,066	27.0
Earnings Per Share			
Primary	3.56	3.08	15.6
Fully Diluted	3.06	2.52	21.4
Cash Dividends (Including Preferred)	8,462	8,165	3.6
Per Share of Common Stock	1.30	1.30	—

TO OUR SHAREHOLDERS

After-tax earnings for the year ended January 29, 1972 reached an all-time high, and were 27 percent greater than last year. This increase was achieved on a modest increase in sales, and reflects the company's current emphasis upon improving profit performance on existing operations.

The earnings increase was the result of significant operating improvement by a number of our divisions and subsidiaries, a sharp decrease in interest expense, a substantial reduction in short-term borrowings, and improved utilization of assets. The company's consolidated net income has increased 45 percent during the past three years, while total assets have increased only 15 percent during the same period.

Some of the major highlights during the year were:

- The continued conversion of company-owned stores to dealer outlets in both the United States and Canada to obtain a greater return on our investment
- The closing of four warehouses in Canada to reduce costs and streamline distribution facilities
- The continuing consolidation of the Tempo and Buckeye Mart Divisions into one group to concentrate management and to eliminate duplication of central office expense
- The sale of over \$12 million of additional subordinated income notes, which brings the amount outstanding to over \$100 million
- The continued strengthening of management teams at both the corporate and profit center levels

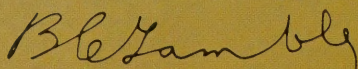
Although we are pleased with the performance of the past year, we are looking ahead. We feel that future earnings improvement will come out of the implementation of our long-range plan which was prepared this year. Our plan of action is divided into three phases:

The first phase involves devoting management's attention to attaining improved profitability from existing operations, with a restriction on expansion activities, except those under way. We anticipate this phase of our program will continue well into the current fiscal year.

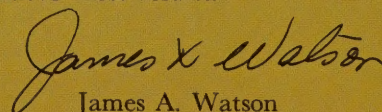
During the second phase there will be carefully planned expansion with investments directed in three primary areas: (a) protection of business that has demonstrated strong profit performance, (b) protection of established market position, and (c) selected testing of new formats for growth.

The last phase will involve an all-out commitment to the further development of proven business formats that have demonstrated satisfactory profit potential.

We believe that our steady profit performance during the last two years will provide the impetus for continued improvement. We recognize that if we are to continue to prosper, we must meet the demands of our various markets, both imaginatively and profitably. We will do everything possible to achieve these results.



Bertin C. Gamble
Chairman of the Board



James A. Watson
President

April 14, 1972



Bertin C. Gamble Chairman of the Board



James A. Watson President

MANAGEMENT



Walter H. Davies, Jr.
*Vice Chairman of the Board
and Treasurer*



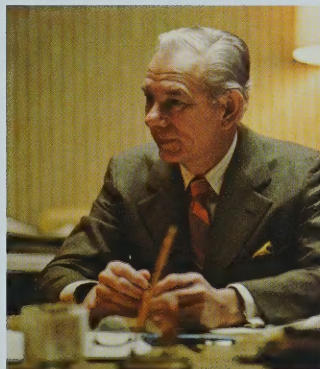
Louis E. Dolan
*Vice Chairman of the Board, Secretary
and General Counsel*



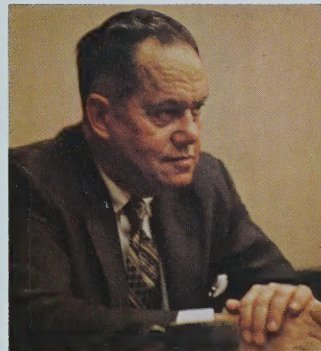
Arthur G. Johnson
*Executive Vice President for
Buying and Merchandising*



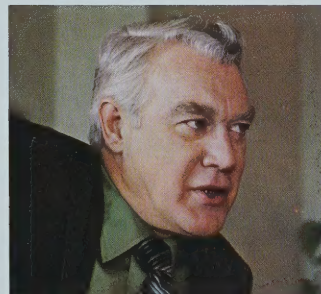
James E. Gottlieb
Senior Vice President for Real Estate



Lawrence W. Rixe
*Senior Vice President and
Controller*

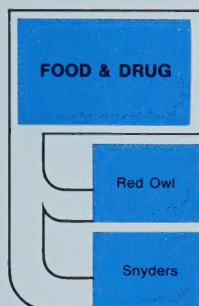


Forest R. Lombaer
Senior Vice President for Personnel



Edwin O. Wack
Senior Vice President





FOOD & DRUG

In August, RED OWL STORES, INC. discontinued the issuance of trading stamps in Minneapolis and St. Paul, its major metropolitan market. To combat the temporary adverse effect this action had upon earnings, Red Owl successfully launched an aggressive promotional program identifying itself as the "Price Rebel." Preliminary results indicate that these actions have greatly strengthened Red Owl's competitive position in the Twin Cities market.

Four conventional food stores were upgraded during the year to become Family Centers. The retail mix of food, drugs and general merchandise offered in these stores continues to win favorable consumer acceptance. Red Owl opened its first Family Center in 1964, and currently operates 17 such stores.

Red Owl sold its 29-store Foodtown subsidiary in September, releasing capital for more profitable investment elsewhere. This reduction in the number of company-owned stores had an adverse effect upon sales when compared with the previous year.

Red Owl's wholesale division franchised five company-owned outlets during the year in a continuation of its program to develop larger dealer outlets while eliminating smaller corporate stores.

In June, Gambles acquired the 19 percent publicly held interest in Red Owl by statutory merger, thus making Red Owl a wholly-owned subsidiary.

Food & Drug Sales and Earnings

(millions)

	1971		1970	
	Amount	Percent of Total	Amount	Percent of Total
Sales	\$497.2	37.8	\$487.4	37.5
Earnings	4.5	12.9	5.0	16.4

Number of Stores	As of 1-30-71	Opened	Closed	As of 1-29-72
Red Owl Dealers	265	19	20	264
Red Owl Stores	180	3	40	143
Snyder Dealers	7	1	—	8
Snyder Stores	38	2	—	40
Totals	490	25	60	455

The building housing these 23,000 laying hens is one of 12 similar units in Red Owl's Farmdale Farms facility which supplies 175,000 quality eggs each day to stores in the Minneapolis and St. Paul metropolitan market.





MASS MERCHANDISING

Operating results of the mass merchandising group were unsatisfactory in the year just ended.

We now feel that we have been successful in developing acceptable sales levels in most units and that we have an effective merchandising formula in our markets.

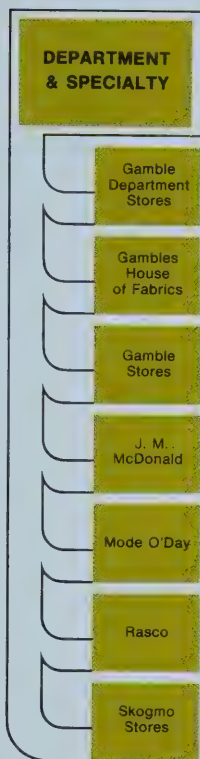
However, increasing competitive pressures, together with markdowns incurred in the adjustment of our merchandising strategy, induced excessive erosion of margins. We believe that this can be corrected without impairing our sales momentum, and we are committed this year to the extraction of more profit dollars from our existing sales base. We will continue to examine the potential in some of the smaller units and will, in all likelihood, franchise, sell or close three or four of these during the coming year.

Mass Merchandising Sales and Earnings		(millions)		
	1971		1970	
	Amount	Percent of Total	Amount	Percent of Total
Sales	\$136.2	10.3	\$133.5	10.3
Earnings	(.8)	(2.2)	.9	3.0

Number of Stores	As of 1-30-71	Opened	Closed	As of 1-29-72
Buckeye Marts	18	1	—	19
Tempo Stores	53	—	3	50
Totals	71	1	3	69

This printing press produces an average of 25 million Tempo direct mail pieces annually for distribution to consumers in the trade areas served by our Tempo stores.





DEPARTMENT & SPECIALTY

In May, the Skogmo soft lines stores became a separate operating division with a staff especially trained in the merchandising of men's, women's and children's apparel. One of the new programs of the SKOGMO STORES DIVISION that holds great promise provides for a continuous flow of current merchandise to dealers in small towns, where there is increasing recognition of fashion trends.

The J. M. McDONALD CO. DIVISION of family department stores experienced substantial gains by capitalizing on the excitement of new fashion, particularly in men's wear. The rapidly changing apparel scene was partly responsible for a trend toward a smaller number of lines, such as jeans for women and double knit slacks for men, with a broader selection of items within each line.

An innovation conceived during the year by the GAMBLE STORES DIVISION was a new prototype hardlines store. The purpose of the store is to offer ideas to Gamble dealers as to the merchandise mix in a modern store and to demonstrate the latest in display techniques. In addition, the division has developed new or improved programs to assist the dealer in his financial management. One of the programs provides the dealer with adequate floor plan financing and deferred dating on seasonal merchandise. This makes it easier for him to maintain adequate stocks of big ticket items and to provide better service to his customers.

An important development in the RASCO STORES DIVISION was the introduction of the concept of multiple franchises under one roof. In stores where size permits, several individual franchisees can share common facilities such as checkout counters, shopping carts and customer services.

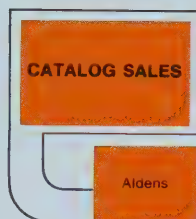
Department and Specialty Sales and Earnings

	1971		(millions) 1970	
	Amount	Percent of Total	Amount	Percent of Total
Sales	\$292.0	22.2	\$286.3	22.0
Earnings	9.2	26.4	9.8	32.1

Number of Stores	As of 1-30-71	Opened	Closed	As of 1-29-72
Gamble Department Stores	26	—	2	24
McDonald Department Stores	88	—	3	85
Gamble Dealers	1300	23	81	1242
Gamble Stores	74	—	7	67
House of Fabrics Dealers	35	7	15	27
House of Fabric Stores	40	21	1	60
Mode O'Day Dealers	651	85	75	661
Mode O'Day Stores	57	46	50	53
Rasco Dealers	135	30	—	165
Rasco Stores	2	—	2	—
Skogmo Dealers	155	9	17	147
Totals	2563	221	253	2531

This garment factory in Mason City, Iowa is one of nine Mode O'Day manufacturing plants supplying womens apparel to 714 Mode O'Day shops in 32 states.





CATALOG SALES

Last year was one of dramatic performance for ALDENS. Earnings increased \$4.2 million, or 127 percent, on a sales base slightly below the previous year.

One of the year's highlights was the success of a program designed to increase the profitability of the mail order operation by reducing credit losses. As part of this program, the criteria relative to credit account risk selection were tightened. In addition, terms were changed so that liquidation of receivables would be accelerated. One effect of this program was to restrict the growth of sales, but the resulting containment of accounts receivable within predetermined maximum limits resulted in increased profitability.

The phasing-out of catalog sales offices continued and at year-end only one office remained open.

Part of the success of the catalogs mailed during the year was due to the introduction of a sales concept called the "Big Idea." Each major catalog featured a limited number of "Big Idea" items that had strong consumer appeal and a successful sales history or a good growth potential. Each "Big Idea" item is of recognizable quality and is offered at a price that customers readily identify as an extraordinary value. Among the most successful items offered during last year's promotion were two-speed bicycles; double knit polyester never-iron slacks; and a multi-band radio and cassette recorder. It is anticipated that the promotion will be continued during the current year.

Catalog Sales and Earnings				(millions)
	1971		1970	
	Amount	Percent of Total	Amount	Percent of Total
Sales	\$188.9	14.5	\$193.8	14.9
Earnings	7.5	21.5	3.3	10.8

Number of Sales Offices	As of 1-30-71	Opened	Closed	As of 1-29-72
Aldens	9	—	8	1

The models in this picture are being photographed on location in Acapulco, Mexico. The picture being taken appears in Aldens' 1972 Spring and Summer catalog.



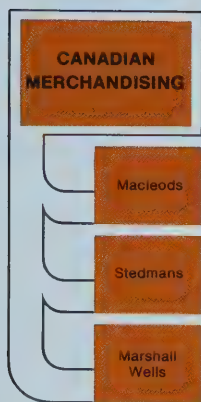
CANADIAN
PACIFIC
RAILWAY

3755

ANA

C.N.

5755



CANADIAN MERCHANDISING

Operating results of our Canadian merchandising divisions kept pace with the improved economy, and the earnings of all divisions exceeded last year's performances. The particularly strong recovery in the Prairie Provinces was beneficial to our retail outlets, a majority of which are located in rural, agricultural communities.

As part of the continued program to reduce operating costs and to maximize the use of facilities, four distribution centers were closed, and their warehousing functions were consolidated. At year-end the Canadian divisions operated or serviced 58 fewer stores than they did the previous year. Contributing to this reduction in the number of outlets was the disposition of all 31 MARSHALL WELLS company-owned stores. Nine of these were converted to Marshall Wells dealerships, seven became company-owned MACLEODS DIVISION stores, and 15 were closed. In addition, the STEDMANS DIVISION converted 12 of its company-owned stores to dealerships.

All of the larger outlets underwent an analysis of their merchandise mix, with the result that inventory turnover was considerably accelerated. Approximately 25 of these same stores were also remodeled.

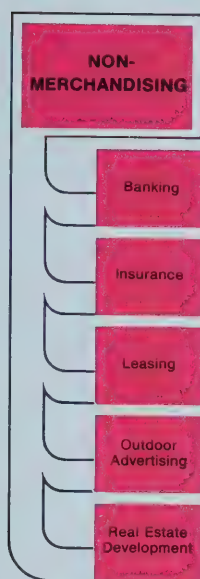
The Canadian data processing systems have undergone extensive study, which has resulted in the development of new, sophisticated programs, including a fully-computerized credit program. A feature of this program is that all customer credit accounts of the three divisions have been consolidated into a central revolving credit plan. Customers have been issued a single credit card that is honored by all divisions in Canada. The availability of this card has been an effective merchandising tool and a convenience to our Canadian customers.

Canadian Merchandising Sales and Earnings			(millions)	
	1971		1970	
	Amount	Percent of Total	Amount	Percent of Total
Sales	\$183.6	13.9	\$180.7	13.9
Earnings	8.6	24.7	6.6	21.6

Number of Stores	As of			As of
	1-30-71	Opened	Closed	1-29-72
Macleods Dealers	167	6	7	166
Macleods Stores	79	7	5	81
Marshall Wells Dealers	258	24	27	255
Marshall Wells Stores	31	—	31	—
Stedmans Dealers	232	21	30	223
Stedmans Stores	104	2	18	88
Totals	871	80	118	813

Bales of small rugs from the Far East are unloaded in the Stedmans Division distribution center in Toronto, Ontario. The unloading dock in this new facility accommodates both trailers and railroad cars.





NON-MERCHANDISING

The non-merchandising operations of the company had a year of continued growth and increasing contribution to earnings.

During the year, two new insurance subsidiaries, GALIC Securities, Inc. and Gambles Insurance Company, were formed, the former to engage in the marketing of variable annuities to individuals, and the latter to offer lease insurance and other property and casualty insurance to Gambles and its customers. These two new companies, together with Gamble Alden Life Insurance Company, John Alden Life Insurance Company, and Gamble Alden Agency, Inc., comprise the Gambles Insurance Group.

Gamble Alden Life completed its first full year of operation in the Canadian insurance market. It also introduced a unique combination of savings and insurance protection under the Money-Mark Plan. This program, offered in conjunction with a sponsoring bank, provides an opportunity for bank customers to enjoy the combined advantages of passbook savings and quality insurance coverage.

Gamble Alden Life continued to receive the A. M. Best "Policyholders' Recommendation" during the year which states: "The results achieved by the company have been favorable. In our opinion, it has substantial over-all margins for contingencies. Upon the foregoing analysis of its present position, we recommend this company."

Set forth in the chart below are the operating highlights of the Gambles Insurance Group for 1971, and the comparable data for 1965, the first full year of operation by Gamble Alden Life after its acquisition in 1964.

continued . . .

Gambles Insurance Group (In thousands)	1971	1965
Admitted Assets	\$ 56,468	\$ 1,915
Total Income	19,281	908
Insurance In Force	828,642	52,906
Benefits to Policyholders	10,077	204
Statutory Net Earnings	2,119	50

An outdoor advertising board in the E. L. Ruddy plant in Toronto, Ontario receives a final touch-up. The Scotch lassie trademark of Macdonald Tobacco Inc. is one of the oldest trademarks in Canada and was designed 44 years ago by Rex Woods, formerly an artist with E. L. Ruddy, which is now a subsidiary of Claude Neon.

Non-Merchandising cont.

CLAUDE NEON ADVERTISING LIMITED, the largest outdoor and electrical sign service in Canada, developed a new advertising display panel called "Market Place Advertising". This innovation consists of mini-billboards designed specifically for display in shopping centers and other public areas with high traffic counts. This concept is being successfully introduced into the Canadian provinces by Claude Neon and its subsidiaries: E. L. Ruddy Company, Limited; Universal Signs Limited; and Outdoor Advertising Sales Limited.

GAMBLES C & M LEASING COMPANY, which is engaged in the leasing of vehicles and the provision of vehicle management services to large corporate fleet users, has more than tripled the number of vehicles leased since Gambles purchased its interest in the company in 1969. Since year-end, a new subsidiary, GAMBLES INTERNATIONAL LEASING CORPORATION, was formed to specialize in equipment leasing transactions to commercial and industrial corporations.

Non-Merchandising Operating Revenues and Earnings	1971		(millions) 1970	
	Amount	Percent of Total	Amount	Percent of Total
Operating Revenues	\$17.2	1.3	\$15.0	1.4
Earnings	5.8	16.7	4.9	16.1

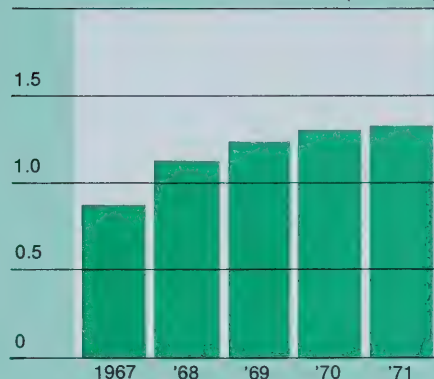
Included are earnings, but not the operating revenues, of unconsolidated subsidiaries.

FINANCIALS

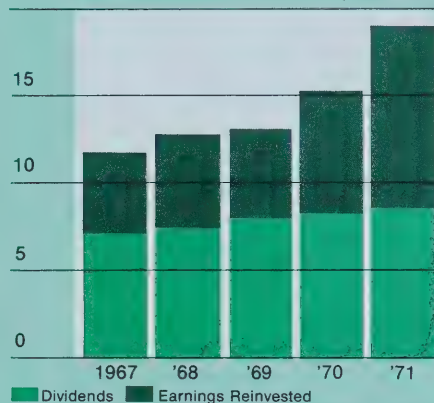
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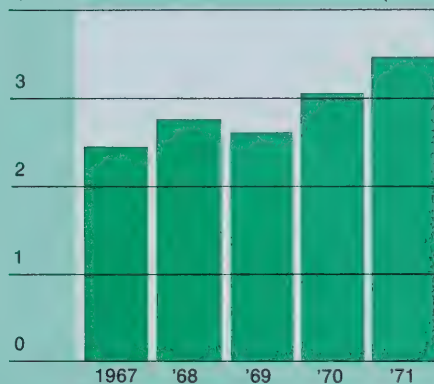
2.0 NET SALES (billions of \$)



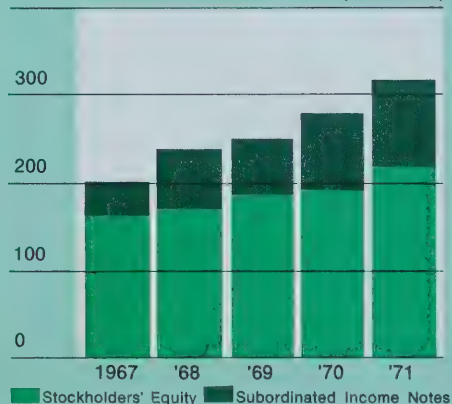
20 NET EARNINGS (millions of \$)



4 EARNINGS PER SHARE (dollars)



400 CAPITAL ACCOUNTS (millions of \$)



1971

1970

CONSOLIDATED STATEMENT OF EARNINGS

(All Dollars in Thousands Except Earnings Per Share)

	Fifty-two weeks ended January 29, 1972	Fifty-two weeks ended January 30, 1971
Net sales and operating revenues	<u>\$1,315,092</u>	<u>\$1,296,704</u>
Costs and expenses:		
Cost of sales, including certain occupancy and buying costs	1,012,438	989,715
Operating and administrative (Notes 1 & 11)	240,630	243,961
Depreciation and amortization	12,643	12,485
Interest—net	15,161	19,639
Contribution to employees' pension and thrift sharing plans (Note 7)	5,520	4,710
Total Costs and expenses	<u>1,286,392</u>	<u>1,270,510</u>
Other income—net (Note 1)	<u>6,071</u>	<u>4,334</u>
Earnings before income taxes and minority interest	34,771	30,528
Income taxes, including deferred taxes of \$3,352 and \$8,603	15,446	14,778
Minority interest in earnings of subsidiaries	198	684
Net earnings	<u>\$ 19,127</u>	<u>\$ 15,066</u>
Earnings per common share (Note 10)		
Primary	\$3.56	\$3.08
Fully Diluted	<u>\$3.06</u>	<u>\$2.52</u>

CONSOLIDATED BALANCE SHEET

(All Dollars in Thousands)

ASSETS

Current assets:

Cash, including temporary investments	\$ 51,423	\$ 34,998
Receivables (Note 2)	63,987	81,693
Inventories at lower of cost or market	202,720	214,173
Prepaid expenses	9,757	11,648
Total Current assets	327,887	342,512

Investments and other assets	85,659	83,979
Property and equipment—net (Note 3)	108,322	110,426
Intangible assets, arising in connection with acquisition of subsidiary companies (Note 4)	28,034	26,967
Deferred charges and miscellaneous assets	15,086	15,313
	<u>\$564,988</u>	<u>\$579,197</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable	\$ 600	\$ 6,158
Current instalments of long-term debt	9,077	5,969
Accounts payable and accrued liabilities	110,443	108,614
Current income taxes	6,026	3,571
Deferred taxes applicable to instalment sales	48,395	43,964
Total Current liabilities	174,541	168,276

Deferred credits	7,438	10,269
Minority interest in consolidated subsidiaries	234	7,495

Long-term debt (Note 5) excluding subordinated income notes shown below as capital funds:

Operating companies	25,060	74,028
Real Estate companies	36,604	37,436
Total	61,664	111,464

Capital funds:

Subordinated income notes (Note 6)	100,099	88,021
Stockholders' equity	221,012	193,672
Total Capital funds	321,111	281,693

Contingent liabilities and commitments (Note 12)	—	—
	<u>\$564,988</u>	<u>\$579,197</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(All Dollars in Thousands)

SOURCE OF FUNDS

	Fifty-two weeks ended January 29, 1972	Fifty-two weeks ended January 30, 1971
Net earnings	\$19,127	\$ 15,066
Depreciation and amortization	12,643	12,485
Net earnings of unconsolidated subsidiaries	(6,146)	(4,911)
Funds derived from operations	25,624	22,640
Issuance of subordinated income notes	12,078	16,264
Issuance of long-term debt	1,600	59,747
Carrying value of property and equipment disposals	6,856	3,663
Issuance of common stock	5,949	305
Decrease (increase) in investments and other assets	4,466	(2,008)
Common stock exchanged for minority interest in Red Owl Stores, Inc.	10,726	—
	<u>\$67,299</u>	<u>\$100,611</u>

USE OF FUNDS

Cash dividends	\$ 8,462	\$ 8,165
Payment of long-term debt	51,400	93,746
Additions to property and equipment	16,437	18,555
Reduction in minority interest	7,261	—
Decrease (increase) in deferred credits	2,831	(3,358)
Other	1,798	1,725
Change in working capital by component parts:		
Cash and other assets	\$14,534	\$ (14,431)
Receivables	(17,706)	(977)
Inventories	(11,453)	15,434
Notes payable and current portion of long-term debt	2,450	(4,504)
Accounts payable and other accrued liabilities	(4,284)	(5,240)
Deferred Federal income taxes	(4,431)	(8,504)
	<u>(20,890)</u>	<u>(18,222)</u>
	<u>\$67,299</u>	<u>\$100,611</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(All Dollars in Thousands)

Preferred stock—voting, cumulative and convertible (Note 8):

\$40 par value; \$1.75 per share dividend; authorized 600,000 shares:

Beginning of period	535,421	\$ 21,417
Conversion to common shares	<u>136,875</u>	<u>5,475</u>
End of period	<u>398,546</u>	<u>15,942</u>

\$5 par value; \$1.60 per share dividend; authorized 1,400,000 shares:

Beginning of period	1,248,752	6,244
Conversion to common shares	<u>165,997</u>	<u>830</u>
End of period (aggregate preference upon involuntary liquidation \$37,896)	<u>1,082,755</u>	<u>5,414</u>

Common stock, including additional paid-in-capital (Note 8):

\$5 par value; authorized 10,000,000 shares:

Beginning of period	3,999,620	36,783
Conversion of preferred shares	306,977	6,305
Exercise of stock options	53,216	1,401
Exercise of stock warrants	160,747	4,548
Exchanged for minority interest in Red Owl Stores, Inc.	<u>262,550</u>	<u>10,726</u>
End of period	<u>4,783,110</u>	<u>59,763</u>

Retained earnings (Note 9):

Beginning of period		129,228
Net income		19,127
Cash dividends:		
Preferred		(2,540)
Common		(5,922)
End of period		<u>139,893</u>
Total Stockholders' equity		<u>\$221,012</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Principles of Consolidation

The consolidated financial statements include all accounts except those of certain non-merchandising subsidiaries, which in the aggregate are not significant, and finance subsidiaries. Combined, condensed financial information for finance subsidiaries is presented on page 25 of this annual report. Investments in subsidiaries not consolidated are carried at underlying equity values.

The pre-tax earnings of the unconsolidated finance companies have been reflected in the Statement of Earnings as a reduction of operating and administrative expense. Earnings of \$2,873,000 for 1971 and \$1,878,000 for 1970 of other unconsolidated subsidiaries have been included in other income.

For comparative purposes, the financial statements for the preceding year have been restated to exclude the accounts of finance and real estate development subsidiaries.

	(thousands)	
	1971	1970
(2) Receivables		
Customer deferred payment accounts . . .	\$36,607	\$ 46,468
Dealer accounts	22,146	24,569
Miscellaneous	25,912	31,531
Total accounts receivable	84,665	102,568
Less: Allowance for doubtful accounts . .	15,200	14,826
Deferred finance charges	5,478	6,049
Net receivables	\$63,987	\$ 81,693

The allowance for doubtful accounts covers the company's exposure on receivables listed above and those sold to finance subsidiaries.

(3) Property and Equipment (at cost)

	(thousands)	
	1971	1970
Land	\$ 11,789	\$ 10,985
Buildings and equipment	166,309	166,885
	178,098	177,870
Less allowance for depreciation	80,864	78,059
	97,234	99,811
Leasehold improvements		
less amortization	11,088	10,615
Net property and equipment	\$108,322	\$110,426

Depreciation and amortization is provided generally on the straight-line method.

Investment credit of \$134,000 (\$48,000 in 1970) has been included in earnings during the year in which the property was acquired.

(4) Intangible Assets

Intangible assets arising from the acquisition of subsidiaries since 1970 are being amortized. Substantially all intangible assets arose prior to 1970 and will not be amortized assuming no impairment of value.

(5) Long-term Debt

Long-term obligations, excluding current instalments, consisted of the following:

	(thousands)	
	1971	1970
Operating indebtedness:		
Revolving credit agreements		
at prime to ½% over prime	\$ —	\$ 40,100
4½%-6%, secured, due to 1997	3,105	3,175
5¾%-9¾%, unsecured, due to 1995	18,455	26,953
6% Sinking fund debentures, due to 1983	3,500	3,800
	25,060	74,028
Real estate indebtedness:		
4½%-9½%, secured, due to 1997	36,604	37,436
Total long-term debt	\$61,664	\$111,464

Annual sinking fund and principal payments on long-term debt and subordinated income notes (Note 6) during the next five years are as follows: 1972-\$9,077,000; 1973-\$11,069,000; 1974-\$5,936,000; 1975-\$5,725,000; 1976-\$4,346,000.

(6) Subordinated Income Notes

Subordinated income notes maturing from 1975 to 1991 pay interest ranging from 7% to 10%.

(7) Pension and Thrift Sharing Plans

Contributions to employees' pension and thrift sharing plans include payments to various retirement plans. It is the company's policy to fund normal cost accrued and interest on prior service costs. The actuarially computed value of vested benefits is fully funded.

The life insurance subsidiary administers the assets of the Gamble-Skogmo, Inc. and Subsidiaries

Pension Plan. Administrative fees paid by the Pension Plan to the insurance subsidiary were \$1,648,000 in 1971 and \$800,000 in 1970.

(8) Capital Stock

Common shares were reserved as follows:

	1971	1970
Conversion of preferred stock	1,493,257	1,800,236
Employee stock options	561,409	617,745
Common stock purchase warrants	272,227	432,974
	<u>2,326,893</u>	<u>2,850,955</u>

Each share of \$1.75 preferred stock is convertible into 1.03 shares of common stock until October 31, 1973; 9,037/10,000ths of a share to October 31, 1978, and 8,024/10,000ths of a share to October 31, 1983, on which date conversion rights expire. The stock is redeemable at the option of the company at \$41.75 per share plus accrued and unpaid dividends with successive annual reductions of 25¢ per share to \$40.00 per share on and after November 1, 1978. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1983.

Each share of \$1.60 preferred stock is convertible into one share of common stock until November 30, 1974, 9/10 of a share to November 30, 1979 and 8/10th of a share to November 30, 1984, on which date conversion rights expire. The stock is redeemable at the option of the company and in the event of involuntary liquidation at \$35.00 per share plus accrued and unpaid dividends. Sinking fund requirements equal to 5% of shares issued, commence in 1984.

Under the company's option plans for executives and key employees, options are granted at market value and exercisable from one to five years after date of grant. Shares under option were as follows:

	1971	1970
Outstanding beginning of period	337,245	312,100
Granted	12,044	65,000
Exercised	(53,216)	(10,800)
Expired	(21,608)	(29,055)
Outstanding end of period	<u>274,465</u>	<u>337,245</u>
Shares exercisable	<u>105,801</u>	<u>94,532</u>
Aggregate option price for shares outstanding	<u>\$7,091,000</u>	<u>\$8,417,000</u>

Warrants to purchase common stock issued in connection with the sale of subordinated income notes are exercisable at prices ranging from \$25.50 to \$40.00 per share and expire from August, 1975 to January, 1984.

(9) Retained Earnings

Retained earnings of subsidiaries at January 29, 1972 are restricted as to payment of dividends by terms of long-term debt indentures and agreements in the amount of \$40,906,000.

(10) Earnings Per Share

Earnings per common share, including equivalents, has been computed based on the weighted average number of shares of common stock and common stock equivalents (stock options and warrants) outstanding during the year. The average number of such shares outstanding was 4,662,575 in 1971 and 3,867,957 in 1970.

Fully diluted earnings per common share is computed assuming conversion of all convertible preferred stock (with appropriate elimination of preferred dividend requirements) and common stock equivalents.

(11) Consumer Credit Operations

The 1971 results of the consumer credit operations which are included in operating and administrative expense of the accompanying Statement of Earnings are as follows:

	(thousands)
Finance charge income	\$55,804
Operating expense (including credit sales expense, collection expense and provision for doubtful accounts)	32,620
Interest expense (reflects the average cost of borrowing of 6.5% applied to average balance of customer receivables reduced by deferred income taxes)	17,321
Income taxes	2,967
Total expense	52,908
Net consumer credit operation earnings	<u>\$ 2,896</u>

The net earnings generated by consumer credit operations, resulted in a 1% return on assets employed in combined finance subsidiaries of the company.

(12) Contingent Liabilities and Commitments

During 1969, a United States district judge ruled that the company omitted material information from a proxy statement and failed to present a fair plan of merger in connection with the 1963 merger with General Outdoor Advertising Co., Inc. Hearings were subsequently conducted before a special master whose most recent report, dated January 31, 1972, recommends that the court assess damages against the company approximating \$6,900,000 plus interest of approximately \$5,100,000. After considering the company's objections to the master's report and its rights of appeal to a higher court and reviewing this matter with legal counsel, the company does not expect resultant damages, if any, to materially affect its financial condition or operations.

Long-term leases covering facilities used or occupied by the company and its subsidiaries provide for minimum annual rentals as follows:

Fiscal years 1973 - 1977, \$16,457,000; 1978-1982, \$12,259,000; 1983-1992, \$5,705,000; and 1993-1997, \$10,779,000.

The amounts exclude maintenance costs, real estate taxes, insurance, etc., and increased amounts based on percentages of sales which may be payable in some cases. The franchise subsidiaries also have substantial commitments under non-cancelable leases for facilities used or occupied by franchisees; however, it is anticipated that aggregate rentals paid by franchisees will exceed the rental payments for which franchise subsidiaries are liable.

Peat, Marwick, Mitchell & Co.,
1800 Midwest Plaza Building
Minneapolis, Minnesota 55402

The Board of Directors and Stockholders
Gamble-Skogmo, Inc.:

We have examined the consolidated balance sheet of Gamble-Skogmo, Inc. and consolidated subsidiaries as of January 29, 1972 and the related statements of earnings, stockholders' equity and changes in financial position for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Gamble-Skogmo, Inc. and consolidated subsidiaries at January 29, 1972, the results of their operations and the changes in financial position for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for the investment in subsidiaries as explained in note 1 to the financial statements.

PEAT, MARWICK, MITCHELL & CO.
March 20, 1972

NON-CONSOLIDATED FINANCE COMPANIES CONDENSED FINANCIAL INFORMATION

(All Dollars in Thousands)

FINANCIAL POSITION

Assets

Customer deferred payment accounts less portion withheld pending collection	\$279,667	\$258,299
Cash and other assets	13,170	19,574
	<u>\$292,837</u>	<u>\$277,873</u>

Liabilities and Equity

Notes payable and current portion of long-term debt	\$143,181	\$ 76,851
Other liabilities	12,256	18,586
Long-term debt, excluding current portion	68,661	116,770
Equity	68,739	65,666
	<u>\$292,837</u>	<u>\$277,873</u>

OPERATIONS

Income, principally on investment in customer deferred payment accounts	\$ 17,231	\$ 18,424
Expenses, principally interest	11,018	12,039
Earnings before income taxes	6,213	6,385
Provision for income taxes	2,940	3,352
Net earnings	\$ 3,273	\$ 3,033

The Finance Companies provide financing for Gamble-Skogmo, Inc. customer accounts. Income received by the Finance Companies is designed to equal at least 1½ times the Finance Companies' fixed charges.

SIGNIFICANT COMPARISONS

(All Dollars in Thousands Except Amounts Per Share)

Results for the year:

Net sales and operating revenues	.....
Earnings before income taxes and minority interest	.....
Federal, state and Canadian taxes	.....
Net earnings	.....
Cash dividends (including preferred)	.....

Per Share of Common Stock:

Earnings per share including common equivalents	.....
Cash dividends	.....
Book value	.....
Book value assuming conversion of preferred stock	.....

Year End Position:

Inventories	.....
Net working capital	.....
Current ratio	.....
Capital accounts	.....
Subordinated income notes	.....
Stockholders' equity	.....
Total	.....

Number of:

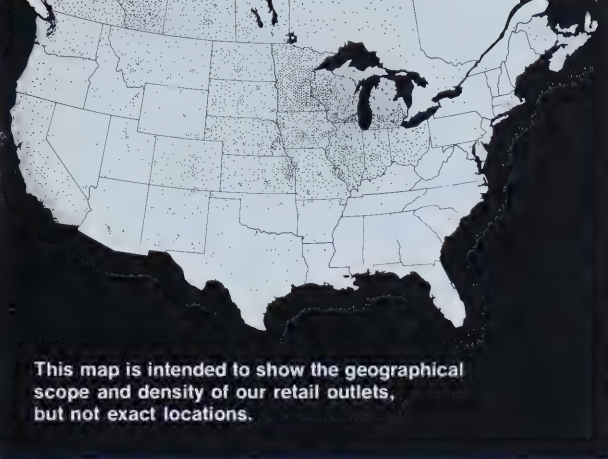
Full time employees	.....
Square feet of selling space	.....
Company-owned stores	.....
Authorized dealers	.....
Common shares outstanding at year end	.....
Shareholders	.....
Subordinated income note holders	.....

1971	1970	1969	1968	1967	1966
\$1,315,092	\$1,296,704	\$1,258,404	\$1,144,165	\$ 910,312	\$ 701,501
34,771	30,528	27,779	28,379	25,452	28,028
15,446	14,778	13,873	14,422	12,940	14,451
19,127	15,066	13,206	13,173	11,995	13,279
8,462	8,165	8,062	7,612	7,407	7,058
3.56	3.08	2.66	2.81	2.51	2.90
1.30	1.30	1.30	1.30	1.30	1.25
34.81	31.87	29.83	28.69	26.28	24.95
35.21	33.39	32.21	31.60	30.16	29.31
202,720	214,173	198,739	212,562	187,388	171,359
153,346	174,236	192,458	174,399	162,977	209,261
1.9 to 1	2.0 to 1	2.3 to 1	2.3 to 1	2.5 to 1	2.5 to 1
100,099	88,021	71,757	69,085	37,718	6,404
<u>221,012</u>	<u>193,672</u>	<u>186,466</u>	<u>175,753</u>	<u>163,588</u>	<u>159,207</u>
321,111	281,693	258,223	244,838	201,306	165,611
22,166	24,275	26,349	26,741	27,286	23,768
8,839,000	8,931,000	9,155,000	9,494,000	8,656,000	6,531,000
711	799	802	907	987	782
3,158	3,205	3,205	3,193	3,315	3,074
4,783,110	3,999,620	3,839,951	3,602,430	3,454,885	3,454,460
16,108	17,345	18,101	17,299	17,059	16,476
10,017	7,566	4,277	3,549	3,789	2,551

DOMESTIC STORES BY STATE

(as of January 29, 1972)

COMPANY-OWNED STORES		Alaska	Arizona	Arkansas	California	Colorado	Georgia	Hawaii	Idaho	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana	Maine	Maryland	Michigan	Minnesota	Mississippi	Missouri	Montana	Nebraska	Nevada	New Mexico	New Jersey	North Dakota						
	Buckeye Mart																									19							
	Tempo				4			2	3		1	2	2					7	8		2	2		5	1		4						
	Gamble Department		1		2					3	3	2			4	1	1		1								1						
	McDonald Dept.		1		10	8			1				23								5		28										
	Gamble				7					4	2	11	4					6	5		2	5		7	1								
	House of Fabrics		1		7					1	4	2	10					5	2		10		3				3						
	Mode O'Day		1	3	16					1	3	2	1						3	2	1	1			1			6					
	Red Owl											3							8	79							12						
	Snyder																		34														
Aldens Catalog Sales Office									1																								
Total - Company-Owned Stores		2	5		28	26		3	13		13	22	40		4	1	1		30	130		1	15	12		43	3		16	29			
FRANCHISED DEALERS	Gamble		3		67			24	74		30	109	80		7			128	171		56	60		106	21		51	15					
	Skogmo				3						1	8	7					11	35			6		14			10						
	House of Fabrics		2		1			3	5		1		2		2			1		1						1	2	1					
	Mode O'Day		2	17	16		154	23		1	17	30		7	33	34		2	2		7	7		2	41	8	20	10	16		2	4	
	Rasco		12		117			4													2			1	17								
	Red Owl										12							13	111								38						
	Snyder										4							3															
	Total - Franchised Dealers		2	32	18		271	94		1	48	109		39	166	123		9	4		160	327		2	98	76		140	11	54		1	103	20
28																																	



CANADIAN STORES BY PROVINCE (as of Janu

Oklahoma	Oregon	Pennsylvania	South Carolina	South Dakota	Tennessee	Texas	Utah	Virginia	Washington	Wisconsin	Wyoming	Total
												19
			3						3	1		50
	1	1		1		2						24
2						3				4		85
			3						7	3		67
4	1		1			3	1		2			60
1	1					6	1		3			53
			8						33			143
									6			40
												1
7	3	1	15	1	12	4			3	51	8	542
2			63		2	2			149	22		1242
			9						42	1		147
			1				1		3			27
18	53		3		52	19			42	10	9	661
	1								11			165
			25						65			264
									1			8
20	54		101		54	21	1		53	270	32	2514

COMPANY-OWNED STORES

	Alberta	British Columbia	Manitoba	New Brunswick	Newfoundland	Nova Scotia	Ontario	Prince Edward	Quebec	Saskatchewan	Northwest Territories	Total
Macleod Stores	29	11	12				4		25			81
Stedman Stores	1	12	1	15	1	16	37	2	1	2		88
Total - Company-Owned Stores	30	23	13	15	1	16	41	2	1	27		169

FRANCHISED DEALERS

Macleod Dealers	52 10 39		4	61	166
Marshall Wells Dealers	88 75 41		2	47 2	255
Stedman Dealers	33 24 5	9 13	118 3 3	14 1	223
Total - Franchised Dealers	173 109 85	9 13	124 3 3	122 3	644

SUMMARY OF STORES

	Domestic	Canadian	Total		
Company-Owned Stores	542	169	711		
Franchised Dealers	2514	644	3158		
Total -	3056	813	3869		

1971

1970

SUMMARY OF OPERATING RESULTS BY GROUP

	(Amounts in Millions)				
	Amount	Percent of Total	Amount	Percent of Total	
Net Sales and Operating Revenues:					
Food and Drugs	\$ 497.2	37.8%	\$ 487.4	37.5%	
Mass Merchandising	136.2	10.3	133.5	10.3	
Department and Specialty Stores	292.0	22.2	286.3	22.0	
Catalog Sales	188.9	14.5	193.8	14.9	
Canadian Merchandising	183.6	13.9	180.7	13.9	
Total Merchandising	1,297.9	98.7	1,281.7	98.6	
Non-Merchandising Operations	17.2	1.3	15.0	1.4	
Total	<u>\$1,315.1</u>	<u>100.0%</u>	<u>\$1,296.7</u>	<u>100.0%</u>	
Divisional Earnings:					
Food and Drugs	\$ 4.5	12.9%	\$ 5.0	16.4%	
Mass Merchandising	(.8)	(2.2)	.9	3.0	
Department and Specialty Stores	9.2	26.4	9.8	32.1	
Catalog Sales	7.5	21.5	3.3	10.8	
Canadian Merchandising	8.6	24.7	6.6	21.6	
Total Merchandising	29.0	83.3	25.6	83.9	
Non-Merchandising Operations	5.8	16.7	4.9	16.1	
Income before Income Taxes and Minority Interest	<u>\$ 34.8</u>	<u>100.0%</u>	<u>\$ 30.5</u>	<u>100.0%</u>	

BOARD OF DIRECTORS:

We are saddened to report the death during December of Harley C. Stephens, a Director since 1961. Mr. Stephens retired as a corporate Vice President in 1969.

New Directors elected at the Annual Meeting of Stockholders in June were Raymond Plank, President and Chief Executive Officer of the Apache Corporation, Minneapolis, and Russell M. Bennett, a partner in the Minneapolis law firm of Haverstock, Gray, Plant, Mooty & Anderson. Bernard B. Zients, Consultant and former President of the New York department store division of Gimbel Brothers, Inc., was elected a Director in December to fill an existing vacancy.

CORPORATE OFFICERS:

The Presidents of three subsidiary companies were elected corporate Vice Presidents. These were R. Bruce Sutherland, President of Gambles Canada Limited; James H. Wille, President of Red Owl Stores, Inc.; and Carle R. Wunderlich, President of Aldens, Inc.

Charles E. Trussell, who will continue to serve as corporate Director of Planning, was also elected a Vice President of the company.

Division and Subsidiary Officers:

Paul B. Horst was elected President of the Mode O'Day Division and Richard F. Cozad was elected President of the Gambles House of Fabrics Division. Mr. Horst was formerly Senior Vice President of Operations for the Rasco Stores Division and Mr. Cozad was formerly Senior Vice President of West Coast operations for the J. M. McDonald Co. Division.

John M. Gould was elected President and Chief Executive Officer of Claude Neon Advertising Limited and former President George W. Caspari was elected Chairman of the Board of the Canadian outdoor advertising subsidiary. Mr. Gould is the former President of Outdoor Advertising Sales Limited, the national marketing agency for Canada's outdoor advertising industry.

DIRECTORS

Russell M. Bennett, *Attorney and Partner, Haverstock, Gray, Plant, Mooty & Anderson*

B. Fred Davidson, *Vice President*

*Walter H. Davies, Jr., *Vice Chairman of the Board and Treasurer*

*Louis E. Dolan, *Vice Chairman of the Board, Secretary, and General Counsel*

*Bertin C. Gamble, *Chairman of the Board*

*Arthur G. Johnson, *Executive Vice President for Buying and Merchandising*

*Forest R. Lombaer, *Senior Vice President for Personnel*
Raymond Plank, *President, Apache Corporation*

Burr L. Robbins, *Consultant and former President, General Outdoor Advertising Co., Inc.*

Harley C. Stephens, *Consultant and former Vice President (deceased December 26, 1971)*

*Edwin O. Wack, *Senior Vice President*

*James A. Watson, *President*

Carle R. Wunderlich, *Vice President; President, Aldens, Inc.*

Bernard B. Zients, *Consultant and former President, New York department store division of Gimbel Brothers, Inc.*

OFFICERS

Bertin C. Gamble, *Chairman of the Board*

James A. Watson, *President*

Walter H. Davies, Jr., *Vice Chairman of the Board and Treasurer*

Louis E. Dolan, *Vice Chairman of the Board, Secretary and General Counsel*

Arthur G. Johnson, *Executive Vice President for Buying and Merchandising*

James E. Gottlieb, *Senior Vice President for Real Estate*

Forest R. Lombaer, *Senior Vice President for Personnel*

Lawrence W. Rixe, *Senior Vice President and Controller*

Edwin O. Wack, *Senior Vice President*

B. Fred Davidson, *Vice President*

Robert W. Hill, *Vice President for Procurement*

Roy W. Johnson, *Vice President for Buying*

Lawrence Kanthers, *Vice President for Department Stores*

Frank D. Kollmer, *Vice President for Credit Operations*

William H. Lollar, *Vice President; President, Rasco Stores Division*

John Y. Loper, *Vice President for Store Design and Construction*

R. Bruce Sutherland, *Vice President; President, Gambles Canada Limited*

Charles E. Trussell, *Vice President for Planning*

James H. Wille, *Vice President; President, Red Owl Stores, Inc.*

Carle R. Wunderlich, *Vice President; President, Aldens, Inc.*

Charles H. Gauck, *Assistant Secretary and Assistant General Counsel*

Sheldon V. Durtsche, *Assistant Controller*

Norman M. Steck, *Assistant Treasurer*

* member of Executive Committee

PRINCIPAL OFFICES DIVISIONS & SUBSIDIARIES

OPERATIONS IN THE UNITED STATES —

MINNEAPOLIS, MINNESOTA:

5100 Gamble Drive (55416)

GAMBLE-SKOGMO, INC. (12)

Corporate headquarters, Phone 612-374-6123

GAMBLE ALDEN AGENCY, INC.

Markets multiple-line insurance coverages

GAMBLE ALDEN LIFE INSURANCE COMPANY (8)

Provides life, health and credit insurance

GAMBLE DEVELOPMENT COMPANY

Develops and leases real estate

GAMBLE SKOGMO ACCEPTANCE CORPORATION

Purchases installment receivables from the parent company and its franchised dealers

GAMBLE STORES DIVISION (1)

Operates and franchises hardlines stores

GAMBLES C & M LEASING COMPANY (11)

Leases motor vehicles to fleet and individual users

GAMBLES INSURANCE COMPANY

Provides multiple-line insurance coverages

GAMBLES INTERNATIONAL LEASING CORPORATION

Leases plant and office equipment to commercial and industrial accounts

SKOGMO STORES DIVISION (4)

Franchises softlines stores

TEMPO-BUCKEYE STORES DIVISION (15) (19)

Operates mass merchandising stores

HOPKINS, MINNESOTA:

215 East Excelsior Avenue (55343)

RED OWL STORES, INC. (20)

Operates and franchises food stores

SNYDER'S DRUG STORES, INC. (14)

Operates and franchises drug stores

ST. PAUL, MINNESOTA:

441 Wabasha (55102)

GAMBLES CONTINENTAL STATE BANK (6)

Provides general banking services

CHICAGO, ILLINOIS:

5000 West Roosevelt Road (60607)

ALDENS, INC. (13)

Offers catalog merchandise

GAMBLE ALDENS FINANCE COMPANY

Purchases receivables from Aldens, Inc.

GAMBLE DEPARTMENT STORES, INC.

Operates department stores

LENEXA, KANSAS:

8101 Lenexa Drive (66214)

GAMBLES HOUSE OF FABRICS DIVISION (18)

Operates and franchises fabric shops

NEW YORK, NEW YORK:

450 West 33rd Street (10001)

GAMBLES CORPORATE BUYING DIVISION

Provides corporate buying services of softlines fashion goods

BURBANK, CALIFORNIA:

2130 North Hollywood Way (91505)

MODE O'DAY DIVISION (10)

Operates and franchises dress shops; operates factories

2709 North Ontario Street (91504)

GAMBLES DATAMATION CENTER

Offers computer programming service to Gambles and other companies

GAMBLES IMPORT CORPORATION (16)

2777 North Ontario Street (91504)

Provides corporate import buying services

RASCO STORES DIVISION (17)

Operates and franchises variety stores, mass merchandising stores and toy stores

HASTINGS, NEBRASKA:

2635 West Second Street (68901)

J. M. McDONALD CO. DIVISION (7)

Operates department stores

OPERATIONS IN CANADA —

WINNIPEG, MANITOBA:

1530 Gamble Place

GAMBLES CANADA LIMITED

Directs all Canadian merchandising operations

GAMBLES CANADA ACCEPTANCE LIMITED

Purchases installment receivables from the Canadian merchandising divisions and their franchised dealers.

MACLEODS DIVISION (5)

Operates general merchandise and mass merchandising stores and franchises general merchandise stores

1395 Ellice Avenue

MARSHALL WELLS LIMITED (3)

Franchises hardware stores

MONTREAL, QUEBEC:

4090 Jean Talon Street West

CLAUDE NEON ADVERTISING LIMITED (2)

Offers outdoor and electrical sign service

TORONTO, ONTARIO:

7622 Keele Street

STEDMANS DIVISION (9)

Operates and franchises variety stores



(1)



(2)



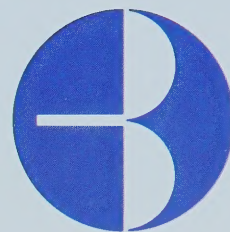
(3)



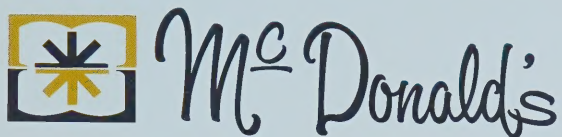
(4)



(5)



(6)



(7)



(10)



(8)



(9)



(11)



(12)



(13)



(14)



(15)



(16)



(17)



(19)



(20)



(18)

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RETURN POSTAGE GUARANTEED

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GAMBLE-SKOGMO, INC. *5100 Gamble Drive, Minneapolis, Minnesota 55416*

